Test: Demand, Supply, Elasticity, and Consumer Choice
Instructor's Version

Answers: Free-Response Questions

1. Demand and Supply

A. Draw a hypothetical demand curve for tickets to a particular rock concert. (3 points)

Demand curve with axes labeled correctly.

1 point for labeling each axis correctly (2 points total), 1 point for having a downward-sloping straight line.

B. Use the demand curve from Part A to show where the equilibrium price will be if the supply of rock-concert tickets is perfectly inelastic at a quantity of 30,000. (3 points)

Same graph from Part A with a vertical line labeled "S" hitting the x-axis at a quantity labeled 30,000, and with the intersection point labeled "E" or Equilibrium.

1 point for labeling each axis correctly (2 points total), 1 point for having a vertical line for the supply curve.

C. Use the supply schedule below to draw a supply curve. (3 points)

Price (dollars)	Quantity Supplied (units)
1	4
2	8
3	12
4	16
5	20

Supply curve with axes labeled correctly and points in proper location, with line connecting the points.

1 point for labeling each axis correctly (2 points total), 1 point for having the points plotted correctly.

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D. List three of the things that can cause a change in demand. (3 points)

Any three of the following:
1. Tastes or preferences
2. Income
3. Population or the number of consumers in the market
4. Substitute goods or complementary goods
5. Expectations of consumers

1 point for each (up to 3 points total).

E. Would an improvement in technology affect the supply or the demand curve? (1 point) **Describe how it would impact the curve.** (2 points)

It would increase supply. Technological changes generally increase productivity. The supply curve shifts to the right.

1 point for each sentence.

2. Market Equilibrium

A. Draw a hypothetical supply-and-demand curve that shows the equilibrium price for leather jackets. Be sure to label your graph completely. (3 points)

Graph: Supply-and-demand curve with both lines and both axes labeled correctly and the intersection point of the two lines marked "Equilibrium."

1 point for labeling each line and axis (2 points total), 1 point for labeling the equilibrium correctly.

B. Describe what would happen to the graph you drew in Part A if leather jackets suddenly became much more popular. (3 points)

The demand curve would shift to the right. The equilibrium price would increase. The quantity would also increase.

1 point for each sentence.

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C. Use a graph and written description to explain how a market adjusts to a new equilibrium when wages increase. (6 points)

Graph: Supply-and-demand curve with two supply lines and an arrow pointing from one to the other to indicate a shift to the left.

An increase in wages would cause a decrease in supply because higher wages make it more expensive for suppliers to produce goods and services. This shifts the supply curve to the left. The result is a higher equilibrium price and a lower quantity.

3 points for the graph, 1 point (3 points total) for each sentence in the explanation.

D. Use a graph and written description to explain why a price floor leads to a surplus. (3 points)

Graph: Supply-and-demand curve with a horizontal line marked "price floor" above the equilibrium price.

Explanation: A price floor makes the quantity supplied higher than the quantity demanded, leading to excess supply or a surplus.

1 point for the graph, 2 points for the explanation.

3. Utility and Consumer Choice

A. How is the concept of utility used in economics? (3 points)

Utility is an economic concept defined as the satisfaction derived from the consumption of a good. Economists use utility as a way of explaining behavior and choices. Economists assume that people make choices in ways that maximize their utility.

1 point for each sentence.

B. Define marginal utility. (3 points)

Marginal utility is the additional satisfaction received from the consumption of one additional unit of a good or service.

3 points for complete sentence.

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C. Explain the law of diminishing returns. (3 points)

The law of diminishing returns states that as you consume increasing amounts of any one good over a given period of time, you'll derive less and less utility from each additional good consumed. Because resources are limited, people want to allocate resources in order to maximize utility. Therefore, there's a point where the decision will likely be made to allocate resources to consuming other goods or services.

1 points for each sentence.

D. What is consumer surplus? (3 points) **Use a graph to show market consumer surplus.** (3 points)

Definition: Consumer surplus is the difference between what a consumer pays for a good and the maximum they're willing and able to pay for the good.

Graph: Downward-sloping demand curve with a price point and a horizontal price line to the y-axis. The triangle defined by the price line, the demand curve, and the y-axis should be labeled "consumer surplus."

3 points for the definition, 3 points for the graph.

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